

# Michigan's Economic and Revenue Situation

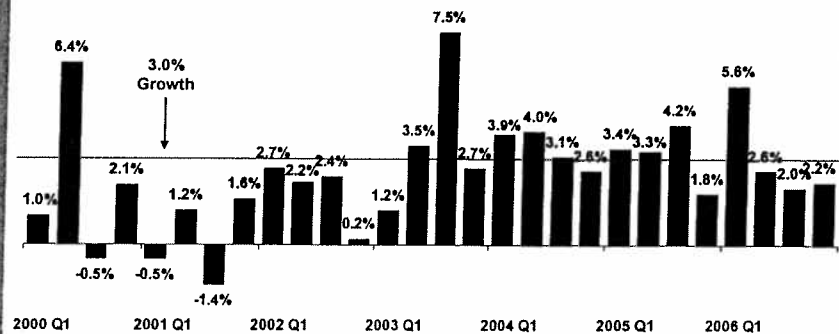
House Appropriations  
and Tax Policy Joint  
Committee Hearing

Robert J. Kleine  
Michigan Department of Treasury  
March 7, 2007

1

## U.S. Economy Starting to Slow

Real GDP Growth



Source: Bureau of Economic Analysis. Figures are percent change from preceding quarter in 2000 chained dollars.

2

## Length of U.S. Expansions

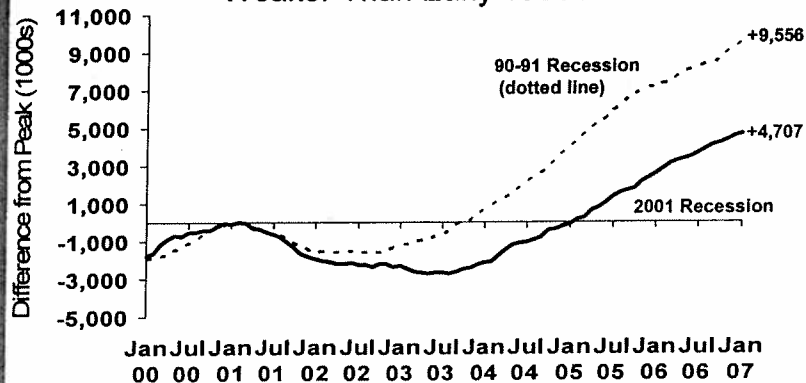
Month of Trough	Length of Expansion (Months)
Oct 1949	45
May 1954	39
Apr 1958	24
Feb. 1961	106
Nov. 1970	36
Mar. 1975	58
Jul. 1980	12
Nov. 1982	92
Mar. 1991	120
Nov. 2001	>63

3

Source: NBER

## U.S. Employment Experience

Weaker Than Early 1990s

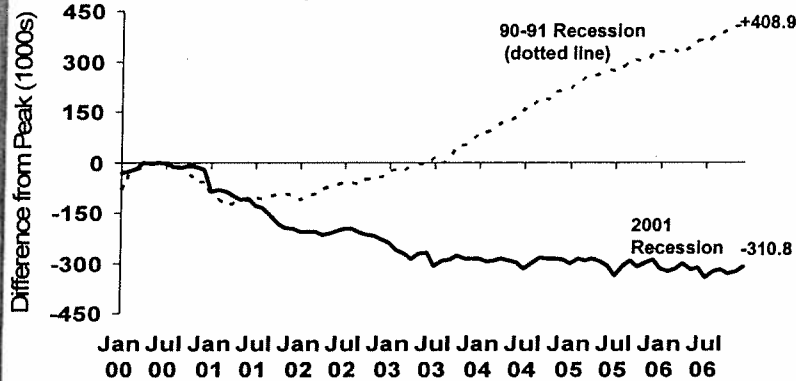


4

Source: Bureau of Labor Statistics

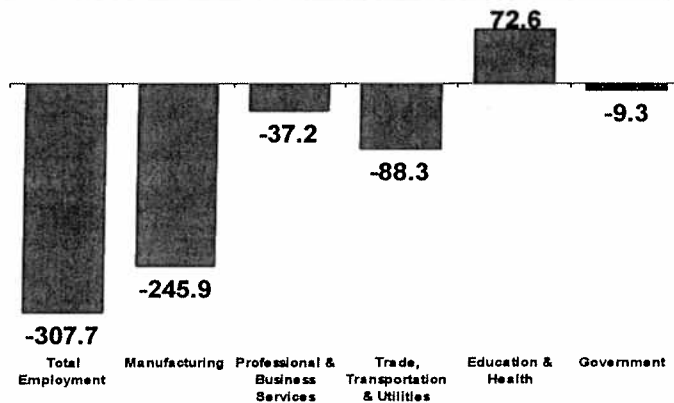
## Michigan Employment Experience

Substantially Worse Than Early 1990s



Source: Bureau of Labor Statistics

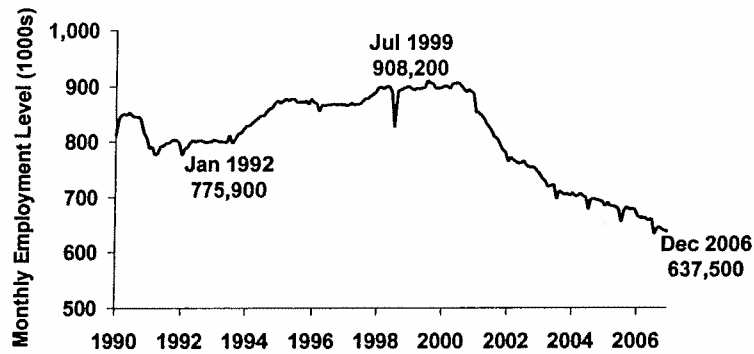
## Michigan Employment Changes 2000-2006



Source: 2000 actuals from Bureau of Labor Statistics;  
Not all sectors reported so industry changes do not add to total change.

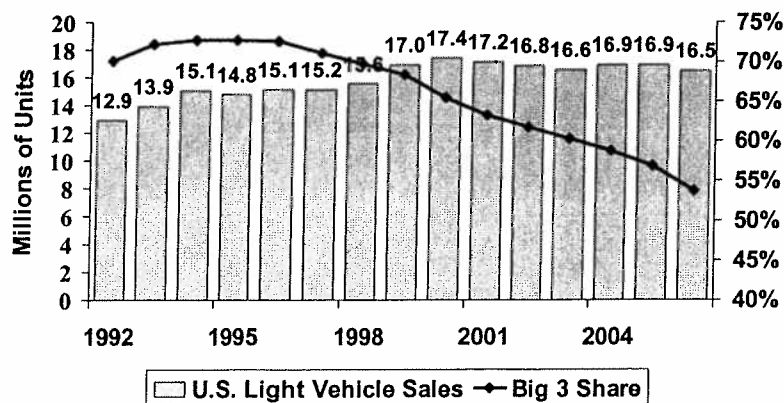
## Michigan Manufacturing Employment

More Than 1 in 4 Jobs Lost Since Mid 1999



Source: Bureau of Labor Statistics

## Big 3 Losing Market Share



Source: Automotive News.

## Market Share Below 50%

1986 - 2011

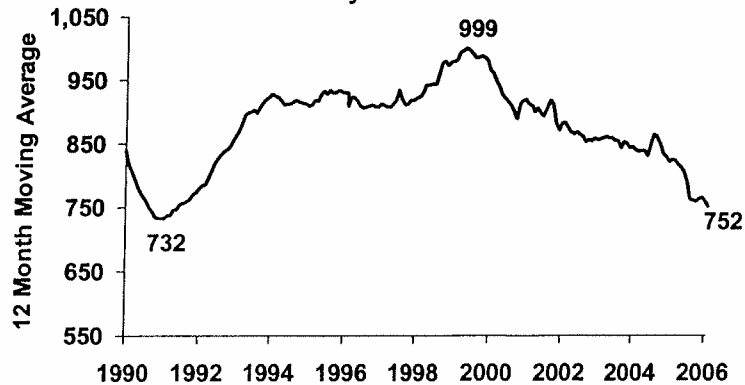
	1986	1993	2007	2011
Big 3	72.4%	73.7%	52.2%	45.2%
Internationals	27.6%	26.3%	47.8%	54.8%

9

Source: Center for Automotive Research.

## Big 3 Light Vehicle Sales

Sales Have Fallen Nearly 24 Percent Since Mid 2000



10

Source: Wards Automotive

## **GM Restructuring**

- Announced 12 facility closings and reduction of 30,000 jobs
- MI cuts announced so far:
  - Lansing Craft Center (398 employees)
  - Lansing Stamping Plant (1,398 employees)
  - Flint Engine Plant (735 employees)
  - Ypsilanti Parts Distribution (90 employees)
- Buyout offer made to all employees; 13,500 Michigan employees accepted the buyout

11

## **Ford Restructuring**

- Closing 14 facilities, offered buyout to workers
- Wants to cut 30,000 hourly jobs and 14,000 salaried jobs nationally
- Wixom Assembly will close (1,567 workers)
- Other Michigan facilities at risk
  - Dearborn Stamping (837 workers)
  - Dearborn Diversified Manufacturing (715 workers)
  - Dearborn Engine and Fuel Tank (908 employees)
  - Wayne Stamping (1 shift)

12

## Chrysler Restructuring

- 13,000 job cuts nationwide
- 2,000 salaried workers at Auburn Hills HQ
- Other Michigan cuts
  - Warren Truck – 1 shift (1,000 workers)
  - Detroit Axle (250 jobs); Mack Ave Eng (200 jobs)
  - Trenton Engine (100 jobs)
  - Sterling & Warren Stamping (165)
  - Increased efficiency at other locations (1,000)
  - Total direct jobs loss approx. 5,500
- Chrysler rumored to be for sale

13

## Other Economic Events

- Pfizer closures will cost 2,100 direct jobs and 3,700 spin off jobs
- Dozens of auto part suppliers, including Delphi Corp, Tower Automotive, Dana Corp, and Collins & Aikman have filed for bankruptcy
- One in three jobs in Motor Vehicle Parts Manufacturing sector has been lost
- Comerica relocating headquarters to Texas

14

## Employment Forecast

Thousands

	<u>Manufacturing</u>	<u>Private Non- Manufacturing</u>	<u>Government</u>	<u>Total</u>
2006	-31.4	9.5	-4.4	-26.3
2007	-38.0	3.2	-4.4	-39.2
2008	-30.8	7.1	-2.2	-25.9

15

Source: Total employment change is Jan. Consensus. Sector detail is Jan Admin scaled by Consensus total.

## Recessions and Recoveries

<u>Quarter of Peak Jobs Before Recession</u>	<u>Number of Quarters from Peak To Regain Jobs</u>	<u>Jobs Lost from Peak to Trough</u>	
		<u>Thousands</u>	<u>%</u>
1960.2	9	174.1	7.3
1969.4	12	230.7	7.4
1973.4	12	216.6	6.5
1979.2	30	533.7	14.6
1990.3	11	109.4	2.7
2000.2	>34*	362.7**	7.7**

16

RSQE: January 2007

\*Forecast: Current data at 26 quarters.

\*\*Forecast: Trough quarter is 2008.3.



## Michigan Private Sector Employment

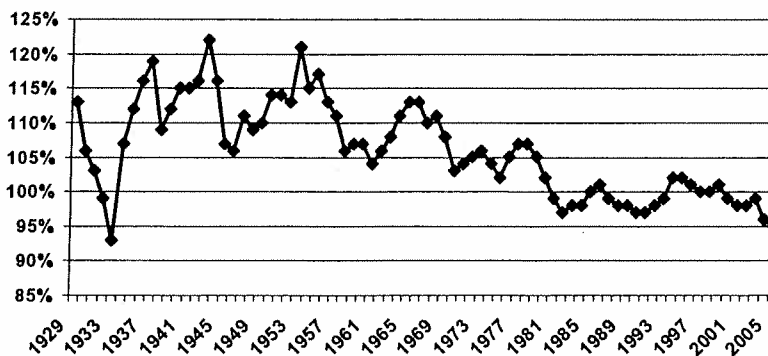
	<u>% of Michigan Employment</u>	<u>Number of Jobs 12/03 to 12/06</u>
<b>Increasing Sectors</b>		
Education & Health	15.3%	31,100
Professional & Business Services	15.9%	27,300
Leisure & Hospitality	10.9%	8,300
Other Private Super Sectors	13.5%	7,800
Total	55.7%	74,500
<b>Decreasing Sectors</b>		
Durable Goods Mfr	14.3%	-70,000
Wholesale/Retail Trade	18.2%	-34,500
Other Private Super Sectors	11.8%	-4,800
Total	44.3%	-109,300

17

Government lost 12,500 jobs from 12/03 to 12/06 and is 15.4% of total wage & salary employment.

## Michigan Personal Income Falling Relative to U.S.

Michigan per Capita Income as a Percent of U.S. Per Capita Income



18

Source: Department of Treasury calculations from Bureau of Economic Analysis data.

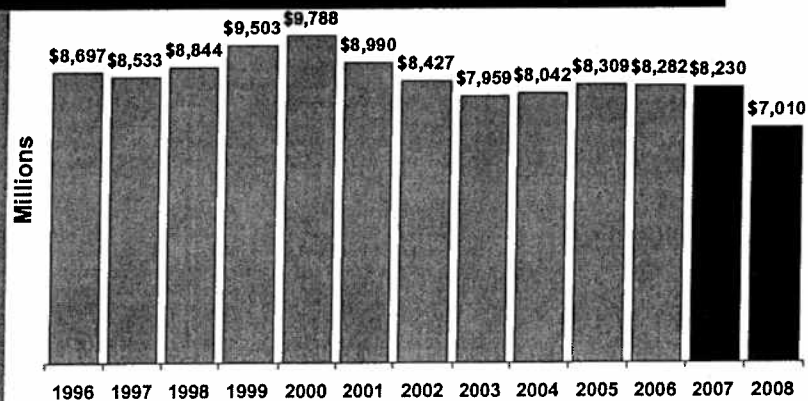
## Major Taxes Perform Poorly

	Amount FY 2000	Estimated Amount FY 2007	Growth Over 7 Years
Income	\$7,136	\$6,242	-12.5%
Sales	\$6,278	\$6,732	7.2%
SBT	\$2,324	\$1,870	-19.5%
GF-GP*	\$9,788	\$8,230	-15.9%

\*Does not include revenues proposed in the Governor's tax restructuring package.

19

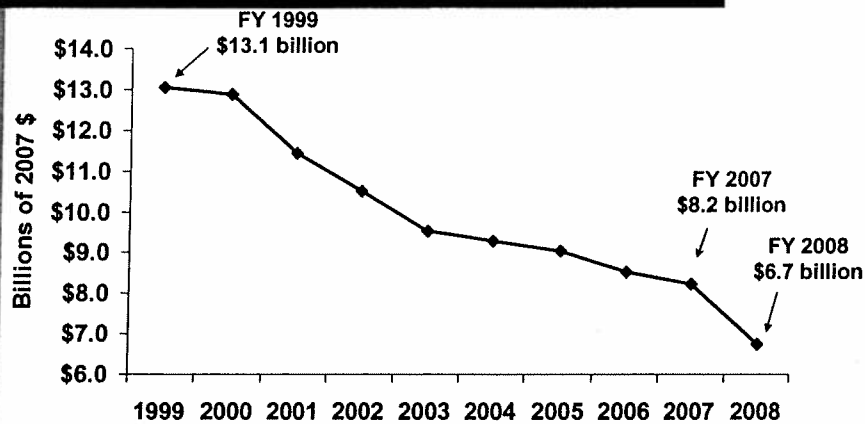
## Nominal General Fund Net Revenue in 2007 Less Than in 1996



Note: Totals exclude transfers and savings from adjusting statutory revenue sharing payments to local governments. 2008 drops due to SBT repeal. Totals assume current law.

20

## Inflation Adjusted FY 07 GF-GP Revenues Down 37 Percent Since FY 99



21

Totals exclude transfers and are adjusted to 2007 dollars using State and Local Govt Price Deflator. Totals assume current law.

## Timing Issues

- The SBT replacement must be enacted rapidly to remove uncertainty for businesses to allow them to prepare
- The service tax needs to be enacted quickly to avoid mid-year cuts to education and vital services
- The cost to the state and to taxpayers of implementing new taxes increases as the timeframe is compressed

22

## Manageable Cash Overview

Millions

FYE	Cash	Interest	G.O. Note	Manageable	CREDIT RATING		
30-Sep	GF/SAF/BSF	Income	Borrowing	Common	S&P	Moody's	Fitch
		(Expense)		Cash			
2000	\$ 2,896.0	\$ 137.3		\$ 4,892.1	AAA	Aa1	AA+
2001	2,085.7	115.0		3,868.2	AAA	Aaa	AA+
2002	599.9	5.7		2,376.2	AAA	Aaa	AA+
2003	(490.1)	(17.2)	\$ 1,248.0	1,425.7	AAA	Aaa	AA+
2004	(897.6)	(23.5)	1,300.0	1,179.6	AA+	Aa1	AA+
2005	(854.4)	(52.4)	1,275.0	1,018.9	AA	Aa2	AA
2006	(1,298.5)	(58.5)	1,299.5	860.8	AA	Aa2	AA
2007			1,306.9		AA *	Aa2 *	AA-

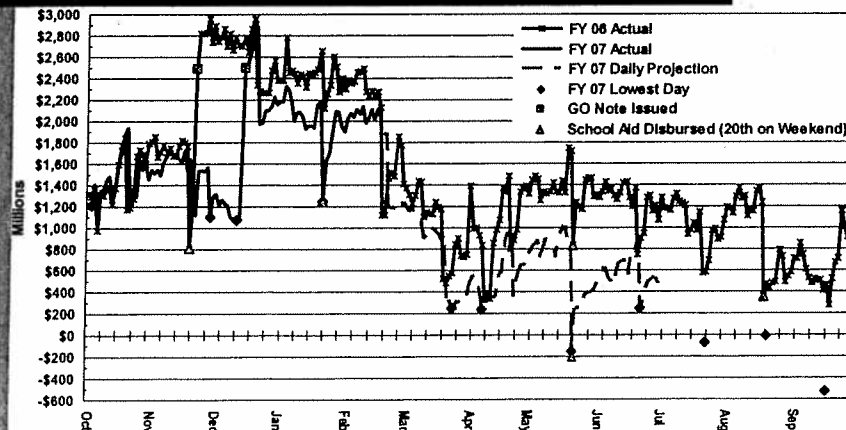
\*negative outlook

- The cash balance has decreased by \$4.2 billion over the past 6 years. The BSF has been depleted.
- The cost of doing business has increased by \$216 million. The General Fund now pays interest instead of earning interest.
- External borrowing has been needed every year since 2003 to finance cash flow needs.
- The State's credit rating has decreased along with the cash deterioration. Note: Letter of Credit needed for Dec note borrowing.

23

## Manageable Cash

FY 06 Actual & FY 07 Actual to Date and Projected



Includes: GO Note proceeds of \$1.3 billion note borrowing, the GO Note repayment in September, and projected 21st Century Jobs Fund Disbursements. Does not include: proposed Tax Restructuring revenue.

24

## Revenues Still Struggling

	<u>Growth Last 6 Months</u>
Sales Tax	-2.7%
Withholding	-0.1%
SBT	-7.3%
Insurance Tax	-5.4%
Real Estate Transfer	-22.5%

25

Growth rates are August through January collections compared to the same period in the prior year. The SBT totals are Sept. through prelim Feb to adjust for payment timing. Aug through Jan. SBT is down over 15%.

